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THE ATLANTA ECONOMIC REVIEW

GEORGIA STATE COLLEGE
of Business Administration
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This Month's Authors

HENRY THOMASSEN
WILLIAM M. FOX
CHARLES T. TAYLOR
ROBERT T. COLLINS

The recent challenge to America's economic growth has stimulated economists and others to redefine processes of economic growth and to evaluate their importance in themselves and their true significance in our free-enterprise system.

Many factors have been involved in this challenge, some of which are: the contests over production rates, contests over management's authority, and the growing feeling among economists that the causes of recurring business cycles are intimately connected with the process of growth.

Contributors to the symposium on **Economic Growth** are: Dr. Thomassen, who is Associate Professor of Economics, School of Business Administration of Georgia State College of Business Administration; Dr. Fox, Associate Professor of Industrial Relations and Management, University of Florida; Dr. Taylor, Assistant Vice President, Federal Reserve Bank of Atlanta; and Dr. Collins, Professor of Economics, Alabama Polytechnic Institute (Auburn University).

WILLIAM G. SCOTT

The dilemma of management (a *social,* or an *individualistic* ethic?) has been presented in many forms of literature. In the first section of his article, the author traces management's philosophy as described by the technical writers. Part II of the article, to appear in a subsequent issue of the **Economic Review,** will give management as viewed by fictional writers and by critics.

Dr. Scott, formerly of the School of Business Administration of Georgia State College of Business Administration, is presently Associate Professor of Management, DePaul University.

HAROLD L. JOHNSON
AUBREY N. SNELLINGS

Both congratulatory and highly critical reviews have been made of Galbraith's **The Affluent Society.** Economists generally may find many points of disagreement with Professor Galbraith in his position that long-established and accepted principles of economics are not applicable in an *abundant* society.

In "An Appraisal of **The Affluent Society,**" views are expressed by two discerning economists: Dr. Harold L. Johnson, Associate Professor of Economics, Emory University; and Dr. Aubrey N. Snellings, Associate Professor of Finance, The University of Tennessee.

WARREN A. WALKER

In "The Southeastern Corner" Mr. Walker discusses **manufacturing** in the state of Alabama, pointing out Alabama's status, measured by certain indicators, as compared to the average for the Southeast and for the nation. In subsequent articles he will present other aspects of Alabama's economy.

AMERICAN ECONOMIC GROWTH
A Symposium

"For Americans, units of consumer satisfaction provide the measure [of economic growth]." . . **Henry Thomassen**

"To a large extent the sense of mission which seems to have characterized some outstanding firms of the past has been replaced today by a greater degree of community and social consciousness." . . . **William M. Fox**

"Unlike a sports contest, the way the points are scored [in economic growth] may be far more important than the score itself." . . . **Charles T. Taylor**

"To be self-sustaining, economic growth must proceed at some minimum rate." . . . **Robert T. Collins**

These comments were among those made by contributors to the symposium in response to the question:

What aspects of American economic growth are of chief concern to you?

AMERICAN ECONOMIC GROWTH IN PERSPECTIVE

by Henry Thomassen

Our "production race" with the USSR is an extraordinary contest. It began long before the players were announced, it offers no clear view of the competitors, and it frees participants to perform according to their own rules. Significantly, it has no specified system of scoring. Indeed, only one thing is certain. The United States is in a race which it cannot on any account afford to lose. So it is that the matter of American economic growth has been thrust to the fore, a vague response to a confused situation.

Paradoxically, the achievement of a high rate of economic growth need not make the United States victorious. In fact, should it do so, this will be quite incidental. Economic growth has meaning only in terms of a particular set of values. For Americans (as Mr. Khrushchev was made aware), units of consumer satisfaction provide the measure. To the degree that consumer satisfaction resulting from one year's economic activity exceeds that of the year before, economic growth has taken place. Generally, such satisfaction increases with industrial output. However, one should not believe that in the output increases which maximize the rate of growth of consumer satisfaction there is also a maximum increase in the rate of growth of output itself. The constituents are not at all the same.

Economic growth rests upon the accumulation of producers' goods (capital) and upon improvements in technology. In capitalism, these accumulations and improvements must occur in those industries which produce directly or indirectly the goods and services upon which the consumer willingly spends most of his income. Nevertheless, capacity is not enough. To be maintained are the rights of the consumer to select between employment and leisure, to spend whatever income which results to the extent he wishes, and to do this spending upon those goods and services and at the time he chooses. So seen, economic growth becomes a matter of providing the consumer with the opportunity to increase his income to an extent which will fully utilize the productive capacity permitted by our resources and knowledge.

Only coincidence or extreme producer influence would make the consumer desire most of those goods and services which we are most capable of producing. Americans do not buy wheat or automobiles for the sake of absorbing productive capacity. Moreover, as has recently caused alarm, Americans suffer no pangs of conscience when selecting foreign goods over competing domestic commodities. Such behavior is a manifestation of the freedoms which we rank uppermost. At the same time, if we are in

an output race with the Soviets (lest they bury capitalism!), it constitutes a self-imposed handicap. Perhaps we should then consider a Machiavellian program which would promote output at the temporary cost of limiting consumer choice.

That a centrally directed production plan could be effective has been demonstrated as recently as in World War II. Capital accumulation and technological improvement were then channeled towards defense outputs at the insistence of a population who felt a military victory to be worth all temporary restraints. Today, given the same feeling of urgency (which as yet we are not), the same sort of mobilization could be effected. The principal difficulty would be in selecting the output to be supported. It might be rockets, or steel, or satellites, or missiles, or foreign aid, or scientific knowledge—but, we are not sure. In consequence, we seem inclined to pursue the more comfortable alternative, that of doing better what we are already doing while, simultaneously, maneuvering to prejudice the judges (presumably the rest of the world) in our favor. The wisdom of playing an "output game" in terms of a "satisfaction approach" remains to be tested. It is an oblique attack and involves much risk. While we succeed in achieving economic growth, we may unwittingly leave the track on which the main event is being staged.

The rate of economic growth could be increased more rapidly were it not for recessions. Here, the fundamental disturbance is one of imbalance between the spending patterns of the consumer and the capacity patterns of industry. This stems partly from the "lumpy" nature of capital formation and the generation of income before the new capacity comes into use. Still, if sales forecasts by firms were accurate, full capacity production levels could be approached. Some industries which expand plant, equipment, and inventories in anticipation of rising sales and profits, and who create new income and employment thereby, find the additions to be excessive even before they are completed. Although consumer spending increases, it is not apportioned according to the pattern of expansion in which the increase originated. As the over-extended industries curtail investment, other industries catch the fever of restraint or have excess capacity forced upon them by the associated decline in personal income. Business spending falls further. Idle capacity becomes widespread and income and employment are depressed. Let it be noticed, however, that the initial unused capacity appears because of the variance in the plans of consumers and producers with respect to consumer spending and not because of an insufficiency of consumer purchasing power.

Business errs in its predictions of consumer behavior, and recession results. Maybe this is the price of maintaining the freedom of the business enterprise to conduct its affairs as it sees fit, a freedom as basic in America as that of consumer choice. Nevertheless, one wonders, in view of the immanent consequences of losing in the race with the Russians, if the range of business choice should not be restricted to the extent that costly declines in the rate of economic growth might be minimized. Certainly business attempts to narrow the scope of consumer choice through its barrage of advertising and its schemes of marketing. In national emergency, at least, is not turnabout fair play? If so, the public must act through the policy alternatives open to the Federal government.

Because excess capacity does not appear uniformly nor simultaneously in the economy, general monetary and fiscal controls will be of limited use except in the instances of extreme shortage or surplus. Supplementary selective policies thus warrant consideration. Selective policies may limit capital accumulation in the industries where the consumer has reduced his spending proportion (or where the producers have lost control of their customers!) while simultaneously promoting it in the industries where the proportion has increased. For example, in late 1957, could not the consumers' durables group have been restrained while service and construction elements were aided so as to hold consumer outlays at levels higher than general measures permitted? This policy possibility is worth immediate testing.

Of course, capacity is but one aspect of growth. Income is the other. Thus, the bolstering of consumer incomes by government transfers and investment in social capital (which the consumers want) in time of recession will aid in maintaining consumption, in depicting the industries requiring expansion, and in absorbing capacity excesses. The strength of consumption in the 1958 recession, so remarkable to many, was in large part traceable to such increments in government spending.

Business and labor may aid in the mitigation of the cycle by increasing their mobility. Business must be alert to changes in consumer preferences; labor must allow management to carry out the technological changes demanded. The production of the American small car is representative of action to be encouraged. Similarly, union policy calling for wage increases only in cases of increased productivity will do much to keep American goods on the domestic and international markets and so should be lauded.

In all of this, it is apparent that the system can respond to the consumer only in so far as his behavior can be predicted. Day to day modifications in capital are not possible. Since prediction of an aggregate is more reliable than that of an element, government policy has the potential of greater success. But, for the government, for the industry, and for the firm, forecasting tools are a necessity. Herein

lies the challenge for the economist. May he, again in view of the emergency, leave Malthus and give prime attention to the theory of forecasting with the purpose of providing practical techniques.

It is high time that the nation decide what sort of challenge Mr. Khrushchev has forced upon it. We must be especially clear as to the manner in which we may be chosen victorious. If the tally is limited to output concentrations of the Soviet type, a temporary program of economic mobilization may be the only expediency. On the other hand, if the promotion of consumer satisfactions peculiar to Americans can put us first to the finish, let government, business, labor, and the economist strive for as rapid a rate of growth as is possible. In any event, let us remember this—the attempt to ride both a production horse and an economic growth horse will be manifestly uncomfortable and insecure and could very easily leave us sprawled on the obscure side of progress.

NATURAL DEMAND VERSUS SYNTHETIC DEMAND

by William M. Fox

I am concerned primarily about the current attempts of labor and management to create "synthetic" rather than "natural" demand for their services in seeking prosperity and an expanding economy. I am "orthodox" in that I feel that the problem is essentially one of *misallocation* of resources due to price-wage rigidities. I feel that the healthiest pattern of allocation is the one which conforms to prevailing patterns of "natural" demand and costs. To a large extent the sense of *mission* which seems to have characterized some outstanding firms of the past has been replaced today by a greater degree of community and social consciousness.

We have many labor leaders who wish to deify the present pattern of labor supply; who demand that we alter the character of demand through subsidies, government spending, etc., rather than consider the reality that the patterns of demand shift and so must the patterns of labor supply if labor is to remain truly productive. These leaders feel that the government should create a market for goods and services which cannot hold their own in open competition. Their prescription for declining industries is more unemployment relief, featherbedding, higher wages, and protection from what has become, in many instances, foreign efficiency rather than foreign sweatshop labor. Today's Labor Barons can force wages up even in the face of *falling* demand and justify it all in the name of salutary, pump-priming inflation.

Big Businesses, on the other hand, have shown an increasing weakness for "planned obsolescence" and the concept of "non-price" competition. They tend toward "administered prices" and the restriction of competition to styling and service on the assumption that they have "price shake-out insurance" in the economy's general inflationary tendency. They feel that they can hold the price line despite falling sales, and can be "easy bargainers" with labor on the assumption that all can be passed on to the consumer.

I am disturbed by these factors which have led Detroit to provide a golden opportunity for the invasion by foreign cars and have caused the United States steel industry to be seriously concerned about foreign competition. Why is it that the Volkswagenwerk in Germany rather than one of *Ford's successors* is pointed to as the company which gives you the biggest transportation value for your money ($1,060 sedan F.O.B. Wolfsburg) today???

More than ever before, our business leaders have a sense of community responsibility and awareness of human relations problems, but have they the sense of mission which fired such men as Henry Ford? To me, the concept of increased utility per dollar makes more sense socially, economically, and morally than those of planned obsolescence and make-work.

Ford created the production miracle of his time. Perhaps the most important explanation for this lay in his strong sense of mission. He kept telling his associates and the men in the factory that he had to build a *better* and *better car* at an *ever decreasing price* so that cars would eventually be within the reach of every family; that this would revolutionize our society. Often he would say, "If you get people together so that they get acquainted . . . the car will have a universal effect. We won't have any more strikes or wars."

That this was not idle talk is apparent from the fact that during the early days of the company he

had had to fight for this objective and that during the Twenties, with the Model T, he largely achieved his goal. At that time no competitor could *produce* a car of similar utility or quality for anything close to Ford's *retail* price. Henry Ford's sincerity, sense of purpose, and spirit were infectious, for his employees not only understood his goal, they could easily *identify themselves* with it.

Why is Ford's formula for an expanding economy less compelling today than it was in 1912? If labor and management could see again the "magic" of his intelligent service to society—the creation of *natural demand* rather than attempts at unstable "synthetic" demand—as the road to solid expansion and prosperity, I feel that many of our problems would be solved.

Ford reduced the price of his town car from $1,200 in 1909 to $595 in 1916 with the highest wages in the industry and growing profits each year (nearly sixty million dollars in 1916).[1] Why is the underlying spirit and logic of what he did any less meaningful today?

1 Data about the Ford Motor Co. drawn from Appendices of **Ford, the Times, the Man, the Company**, by Allan Nevins (New York: Charles Scribner's Sons, 1954).

WHAT'S THE SCORE?

by Charles T. Taylor

At this time of the year we can find the results of the previous day's football contests conveniently summarized by simply turning to the Sports Section of our Sunday paper. There we can find that Siwash College beat Little Neck by a score of 7 to 6 and so on. If we wish to know more of the facts, such as the number of yards gained or passes attempted and completed, we can read the detailed stories. The score, however, is the most important thing. That is what really counts! Not how the points were made.

Perhaps because we love athletic contests so much, we Americans tend to think of economic growth as a sports contest; the winner is the nation that turns in the highest score in terms of steel production, per capita income, consumption per head, the number of satellites and cars produced, and so on. Many of us are sure that whichever nation announces the most wins the game, but apparently we are not too much concerned about how these records were achieved.

Economic growth, however, is not a game. Unlike a sports contest, the way the points are scored may be far more important than the score itself.

Perhaps we did not intend it, but I am afraid that Americans may be creating the impression that we value our economic and political system solely because it provides us with more things. When Premier Khrushchev was in this country, the press and radio showed thousands of Americans trying to convince the Russian visitor that the American system was better because our corn and our buildings are taller than his or because we have more cars and better houses. Few Americans seemed to remember that the value of our economic and political system lies more in the way we acquire these things than in the things themselves.

Are we forgetting one of the unique qualities of our economic and political system? That it aims to let the individual develop his own capacities, choose his work, and save or spend his income as he wishes, subject only to his not interfering with the rights of others?

As an ideal, this aim may never be reached. Nevertheless, the score for our economy and its growth should be how nearly we come to reaching this goal. Our economic growth should be measured by how much it enables us to enjoy "the life, liberty, and the pursuit of happiness" that our forefathers thought were man's inalienable rights.

Our preoccupation with economic growth as an end in itself and our determination to pile up points at all costs may well be the greatest danger to our American way of life. Other economic systems have been efficient producers, and many of these systems far antedated those now in operation. Archeologists

and anthropologists suggest, for example, that the Incan Empire was an extremely efficient economic system. So too was the Roman Empire during certain stages. In more recent times, the Nazi regime turned in an impressive performance of economic growth for Germany. And so far as the rate of growth is concerned, some communist countries which have only recently started to develop their industries will undoubtedly put in impressive performances.

Forgetting that such economic growth was achieved only by submerging the interests of the individual and sometimes by resorting to unrestrained terrorism, some suggest that this country would turn in a better score if we adopted similar methods. Why should we, they say, improve or change our educational methods and standards? Not to create the well-informed and thoughtful citizenry needed in a democracy, but to produce more and better rockets. Each child, we are told, should become a budding scientist or mathematician; we have no time for anything else.

Others intrigued by the ability of an authoritarian society to promote capital formation by restricting consumption, suggest that some measures to accomplish this be adopted in this country. Controlling wages directly or confiscating personal savings may be too crude, but will not a little inflation do the trick?

America cannot survive in an atomic age, still others tell us, unless we adopt the methods of our competitors in a cold war. We must have economic growth at all costs in terms of more and more production per head. But does military preparedness inevitably result from an increase in total income when this income may merely only produce more TV sets, better houses, more cars, more expensive vacations, and surplus calories and pounds? Does not our national strength depend rather on our willingness to sacrifice some of our consumption for the defense of our liberty.

My chief concern, then, about American economic growth is not that we will fail to continue to produce more—past records show the strength of a free economy. My concern is rather that we may look at economic growth as a goal in itself regardless of cost. If we do this, we may lose the game no matter how it is scored.

ECONOMIC GROWTH AND STABILITY

by Robert T. Collins

A considerable impetus to the study of various aspects of economic growth has come from our postwar relations with Russia. The importance of economic growth has long been recognized, however. The late Professor Joseph A. Schumpeter, to cite only one example, contended that the business cycle was the way a capitalistic system assimilated change. More recently, the Harrod-Domar growth model has presented growth as a self-sustaining process provided that growth proceeded at a sufficiently rapid rate. Considerable uncertainty exists as to what the sufficient rate is, but it is usually felt that a three per cent annual increase in total output is adequate. Selection of this rate is based on the fact that the average annual increase in total output since 1880 has been approximately three per cent. A pertinent question is whether this annual rate of growth is adequate to avoid severe depressions.

More than casual interest should be attached to the answer to this question because of its implications for economic policy. Sufficient attention is not being paid to the adequacy of the current rate of growth for two reasons. First, the economy has successfully recovered from each of the three postwar recessions without major action on the part of the Government. Each recovery has added new converts to the group who contend that adequate depression safeguards have been erected. Second, inflationary pressures have existed during most of the postwar period. To some, the presence of forces producing inflationary pressures precludes serious depressions. To others, the major danger of a depression is inflation itself. Dr. Arthur Burns, former chairman

of the President's Council of Economic Advisors, has cautioned against overoptimism in his statement that ". . . obituaries on the business cycle are romantic expressions of human impatience, not records of solid achievement."[1]

During the postwar period, growth has occurred at a rate approximately equal to the long-term trend. Since many severe depressions have occurred in the long-run period characterized by this rate of growth, this average rate of expansion, in itself, is not sufficient to avoid depressions. If depressions are no longer a pressing problem, changes in an important characteristic of the economy must have been made. Whether adequate changes have been made is a debatable question. The balance of this paper attempts to answer the question by drawing implications from certain data on the economy's postwar performance.

In Table 1 the three postwar recessions are listed. Opposite each is the per cent decline in real gross national product (GNP) and the direction change in the general price level that occurred during the recession. The per cent decline in GNP is the difference between the peak in the series immediately preceding the downturn and the trough during the recession.

TABLE 1

U. S. General Price Level Change and Decline in GNP Postwar Recessions

Year	Decline in GNP[1]	General Price Level Change[2]
	%	
1948	2	Fell
1953	4	Very Slight Rise
1957	5½	Gentle Rise

1 **U. S. Income and Output**, U. S. Department of Commerce (1958), p. 22.

2 **Ibid.**, p. 17.

The decline in GNP has been greater in each succeeding recession. The degree to which the postwar recessions have approached depression stature can be seen by comparison with the GNP decline of nine per cent during the 1921 depression.[2] While not a complete explanation, the behavior of the general price level is one of the most important factors in the explanation of the behavior of real GNP during the recessions. Necessary adjustments within the economy can be made either through changes in prices or changes in output. To the extent that price adjustments were made, output adjustments were unnecessary. The extent of output declines in future downturns is thus, to a great extent, dependent on price behavior during the future downturns.

Some indication of future price behavior can be gleaned from trends in profit behavior, especially the trend of the ratio of profits to sales. The ratio of profits to sales gives some indication of the relative movements of prices and costs. The narrower the spread between prices and costs, the less the likelihood of price cuts.

In general, profit totals have risen during the postwar period. This has not been true of profit ratios, however. Profits on sales have shown a downward trend throughout the entire period.[3] The profit-sales ratio has fallen faster than trend during the downturns and has risen during recoveries. The ratio of profits to sales at the beginning of the 1948 recession was approximately seven per cent. At the beginning of the 1957 recession, profits were about four per cent of sales. Considerably greater leeway thus existed for price decreases at the beginning of the 1948 recession than at the beginning of the 1957 recession. The downward trend in the profit-sales ratio indicates that in the future the adjustments must be of an output rather than a price nature. The indication is that future output adjustments will be of increased severity.

Other profit ratios that have consistently declined during the postwar period are profits as per cent of national income, profits as per cent of net worth, and profits as per cent of income originating in U.S. corporations.[4] It is of interest that profits as per cent of income originating in U.S. corporations are currently at the same level as during the 1920's.[5] During the 1920's there was a slightly rising trend, however, while at the present time the trend is downward. The apparent danger indicated by these trends in profit ratios is that of a collapse in the marginal efficiency of capital during a recession. With the present narrow profit margin, profit expectations may be impaired to such an extent that severe declines in net capital formation and thus in the rate of growth may occur.

In summary, to be self-sustaining, economic growth must proceed at some minimum rate. Prior to the Second World War our rate of growth, measured by increases in output, averaged three per cent per year. This rate of growth was inadequate to avoid either minor recessions or major depressions. In the postwar period the rate of growth has continued at the long-term trend rate. Declines in real GNP during postwar recessions and the trends in profit ratios suggest that depressions of a more severe nature, although not necessarily as severe as in 1929, are likely in the foreseeable future.

1 Arthur F. Burns, **New Factors on Business Cycles**, 30th Annual Report of the National Bureau of Economic Research (1950), pp. 3-4.

2 **U. S. Income and Output**, U. S. Department of Commerce (1958), p. 16.

3 **Business and Economic Review**, First National Bank of Chicago, January 1959, p. 3; **Road Map of Industry**, No. 1241, National Industrial Conference Board, October 9, 1959; Victor Zarowitz and Lionel J. Lerner, **Cyclical Change in Business Failures and Corporate Profits** (from an unpublished monograph of the National Bureau of Economic Research), p. 48, are only a few of the sources that have noted this trend.

4 **Road Map of Industry**, No. 1241, and **U. S. Income and Output**, p. 15.

5 **U. S. Income and Output**, p. 15.

An Appraisal of
Galbraith's THE AFFLUENT SOCIETY

by
Aubrey N. Snellings
and
Harold L. Johnson

Professor John Kenneth Galbraith's best-seller, The Affluent Society,* *has received varied comment—of praise and of criticism. Here two perceptive economists give their evaluation of Dr. Galbraith's provocative work.*

Aubrey N. Snellings

It is difficult for me to discuss this book objectively. The author has a style of writing which I find quite irritating, and his method could be called anything but scientific. He does not hesitate to stretch the truth in order to achieve a *bon mot,* and what purports to be factual evidence is most casually presented indeed. Further, more often than not, the reasoning based on this shaky foundation of half-truth and unverified assertion is unsound.

In spite of these defects, this is a book worth reading. If one is able to overlook the above-mentioned shortcomings and what Vining refers to as "the author's lively awareness of being naughty,"[1] he will find much in this book that is stimulating and thought-provoking.

Galbraith's major thesis is that the economic principles upon which most of our thinking about economic matters is based are no longer relevant. These principles applied to the world that existed at the time Smith, Ricardo, and others were developing the main body of economic thought that has been brought down more or less intact to our own time. They applied to a world of scarcity, where hunger and privation were an ever-present reality. But, argues Galbraith, we live in a world of plenty, a world in which production is no longer the central economic problem. In such a world it is foolish and even dangerous to base our economic policies on principles that were developed in the ancient days of want and privation.

After developing this major thesis, Galbraith proceeds to discuss what he considers to be some of the major problems of our affluent society and to propose remedies for these problems. The problems discussed include the quest for economic security, the tendency toward inflation in a security-conscious society, and the achievement of a better balance in the allocation of resources between production of private goods and public services. While there is some question that these problems are peculiar to an affluent society, there is no question that they are among the paramount economic problems facing our society. The proposed solutions to these problems are developed within the new frame of reference which presumably replaces the old economic orthodoxy which Galbraith has attempted to destroy.

To discuss adequately all of the controversial aspects of this book would require a second book even longer than the original. However, there are one or two major points I would like to mention. First, if we accept Galbraith's basic thesis that the world in which we live is one of affluence rather than scarcity and that production of goods to satisfy human wants is no longer the major economic problem, it is apparent that the entire structure of accepted economic theory is demolished. The principles according to which resources are to be allocated, methods of production organized, and income distributed, all become irrelevant. But this raises what seems to me to be one of the most important questions concerning this book: after we have discarded all of the orthodox economic principles that Galbraith contemptuously classifies as "conventional wisdom," what do we put in their place? Surely it would seem reasonable to expect someone who had destroyed so much of what so many of us consider to be the very heart of economics to at least point the way toward a reconstruction of the science. Galbraith does not seem to think so, for as far as I can determine he makes no real attempt to do so. He points out that he has accomplished his main task by destroying the myth that has dominated our economic thinking. Then, after heaping scorn on those

*Published by Houghton Mifflin Co., Boston, 1958.

1 Rutledge Vining, "The Affluent Society: A Review Article," American Economic Review, XLIX (March 1959), 112.

victims of the "conventional wisdom" who set so much store on constructive criticism, he concedes that it is better to deal with these strange people on their own terms and to provide them with the answers they need to fill the seemingly vast vacuum which has been created. However, after reading the remainder of the book very carefully, I must confess that I am one of the victims of the conventional wisdom for whom the vacuum remains unfilled. The best that I could find in the way of a general statement of principles was something to the effect that we should replace productivity and production as economic criteria with such other tests as "compassion, individual happiness and well-being, [and] the minimization of community or other social tensions" (p. 289).

I am all in favor of the exercise of compassion in the development of economic policies, and such policies should include such objectives as the furthering of individual happiness and well-being and the minimization of tensions. However, even in an affluent society economic decisions must still be made, and I must confess that I have difficulty in understanding how the decision-making units are going to make these economic decisions entirely on the basis of the above criteria.

One of the tenets of orthodox economics is that the basic economic decisions are made through the market mechanism in terms of such fundamentally economic criteria as efficiency, productivity, etc. If we eliminate these economic criteria and the decision-making function of the market, who is going to make the decisions? It is clear, I think, that this does not concern Mr. Galbraith very much, because one does not have to read very far in his writings to realize that he is little impressed with the efficacy or the desirability of a free enterprise system.

But as Galbraith points out (p. 289), "Much more than decisions on economic policy are involved. A system of morality is at stake." In Galbraith's world of affluence, traditional American attitudes with respect to the virtues of thrift and hard work become meaningless and even dangerous. Indeed, one of the problems in this brave new world would be that of disabusing a large part of the population of the idea that work as work is desirable. In the topsy-turvy world created by Galbraith, Freddie The Freeloader becomes a respected and honored member of society.

Here, too, I am afraid that I have been left with an unfilled vacuum. I realize that my Victorian morals are greatly out of date, but I still feel that "the world owes no man a living." Those such as Galbraith, who contend that the world should owe everyone a living, fail to point out that "the world" is made up of our fellow men, and that the living the world owes us must be provided by the efforts of those men. If everyone adopted the attitude that the world owed him a living, who would provide the living?

Also overlooked in this new system of morality is the fact that the virtue of thrift and hard work has been closely associated with the idea of the responsibility of the individual for his own well-being. This individual responsibility, in turn, is closely related to individual freedom. While it is true that economic and social changes have made it very difficult at times for the individual to assume responsibility for his own fate, it is also true that there has been a growing willingness on the part of Americans to forfeit both freedom and responsibility. While Galbraith may applaud these developments as evidence of the freeing of men's minds from the myth of conventional wisdom, to me it is a cause for sorrow, for it heralds the beginning of the end of a free society.

For I think this is really what Galbraith's affluent utopia boils down to: a society without individual responsibility and without individual freedom. The citizens of Galbraith's world would have all of the freedom of the robots who inhabited Huxley's brave new world.

* * *

Harold L. Johnson

Professor John Kenneth Galbraith is an economist well schooled in "the art of controversy," for two of his recent books, **American Capitalism: The Concept of Countervailing Power** and **The Affluent Society**, have provoked all manner of comment and debate. The image or conception which many people have of the person labeled "economist" is that of a serious, conservatively-clad introvert well outside the area of controversy, a man of *ceteris paribus* and the well-hedged comment. There are notable exceptions to this image, of course, in the figures of Keynes, Slichter, and Samuelson—but perhaps the most notable current exception is Professor Galbraith. Galbraith is an economist whose writing is vigorous and caustic and at times perhaps even poorly mannered!! He is an economist stating what

others have said before, but in a way guaranteed to irritate and dismay virtually every interest group in American society.

This ability to irritate is illustrated, for example, when he makes universal the fact of "featherbedding," noting that featherbedding characterizes not only the factory but also the university and upper reaches of the executive suite. Even with all his sharp comment concerning the conventional wisdom in economics, however, it could be argued that Galbraith does the profession a service in exciting comment and discussion on economic topics and issues.

The theme or motif of this brief piece on Galbraith's best-seller is to suggest, as does Galbraith, that there really is little that is novel or revolutionary in his onslaught against "the affluent society and its conventional wisdom." It is to a considerable degree his brashness of statement that aggravates rather than the novelty of his propositions. Some effort at substantiation of this theme follows.

First, in his discussion of the conventional wisdom as the acceptable but irrelevant statements of various interest groups, Professor Galbraith issues, as others have issued, a useful warning. It is essential in the probing of problems to distinguish carefully between a framework of analytical tools and *the creedal forms* in which some of these conceptual tools can be stated. The economist for his particular purposes erects a structure of analysis describing the allocation of scarce resources under carefully defined circumstances and conditions. His terms such as pure competition and market mechanism are given a narrow and technical definition. Parts of this analytical framework can be vulgarized into an incomplete and oversimplified form, into what has been called the American business creed.[1] "Free private business enterprise" is the creedal version of the elaborate market mechanism of the scholar. As a word of warning, however, the term "creed" does not necessarily carry with it censure and disapprobation, for all individuals unavoidably possess a creed or perspective through which they view the meshing of their activity with that of society at large. It is sufficient to say here that Galbraith's concept of the conventional wisdom relates in no small way to the creedal form of an analytical framework.

Since most individuals have an extraordinary difficulty in seeing the creedal dimension of their own positions, perhaps the similarity between creed and conventional wisdom is apparent with a group such as labor organization. As Galbraith indicates, the union member or official as well as the businessman has a creed or conventional wisdom. The present dilemma of the Labor Party in Britain, in fact, can be explained partly by the obsolescence of its conventional wisdom and the difficulty of devising a new one.

Approaching Galbraith's attack on the conventional wisdom from a different front, with this attack Galbraith illustrates what J. M. Clark called many years ago a "non-Euclidean" economics. By a non-Euclidean economics Professor Clark referred to the insights which come from a directly opposite statement of usual economic propositions. Galbraith, in arguing that the military security of the nation may be endangered by a large GNP as well as strengthened by it, argues in such a "non-Euclidean" sense to drive home a sobering proposition.

Secondly, Professor Galbraith, as does practically every other economist, notes that individuals and societies want a variety of things from their economic activities. The "commodities" which individuals desire include not only goods and services, but include also increased leisure and a lessening of insecurity. The economic goals of American society likewise are several, embracing a high standard of living, efficient allocation of resources, economic progress, and respect for and development of the individual person. Economists, as other reasonably perceptive observers, are aware of the many values sought through the economic system, so Galbraith contributes nothing new here. However, he does perform a service in reminding economists that the goals are more complex than the efficiency goal upon which they concentrate. Economists obviously should not be upbraided for concentrating their efforts on one or a few goals, leaving the others to sociologists or philosophers, for with this limitation comes progress in the field. But Galbraith reminds us that the economy is evaluated by society-at-large not only on how well it achieves the efficiency criterion but also on a whole array of other values. Our author in his discussions of economic security, of increased leisure, and of lessened work tempo focuses on economic goals other than optimum allocation of scarce resources.

Galbraith notes that some of the economic goals or values sought in the economic order apparently require government interventions of various types and categories, so that he indicates government may make positive contributions to achievement of social purpose. In his view, government action is not altogether a negative or a disruption of the economy. This widely accepted position would upset only those on the extreme fringe of conservatism.

Thirdly, in sketching his theory of social balance, Galbraith draws on the notion of complementary goods or factors found in all elementary economics textbooks. He describes the automobile and modern highway, the urban conglomerate and necessary police and sanitation protection as pairs of complements which go together like lemon and tea.

1 See Francis X. Sutton and others, The American Business Creed (Cambridge: Harvard University Press. 1956), for an extended study of such a creed.

The demand for these items, as for speedboats and public water recreation areas and more lengthy vacations and state and national parks, is joint or interdependent, the production of one tending to encourage a demand for the complementary good. It is Galbraith's opinion that, because of American emphasis on the market and the private sector of the economy, a shortage of serious proportion exists with the public complements to private goods. Anyone who has tried to pitch a tent in a crowded national park, who has noticed the filth of a large city, or who has found his child in a school classroom with forty or more youngsters may be inclined to agree with Galbraith. The insight into the complementary character of many articles of private and public production, while a significant one and perhaps the proposition of Galbraith which attracts the most attention, is a transparent one based on a sophomore economics concept. Our author, however, deserves credit for the sharp and invigorating way by which he calls attention to this complementarity.

Finally, Galbraith has been both praised and blamed for his linkage of consumer demand to production, with advertising as an important connecting factor. He suggests that many categories of consumer demand do not arise free and independent from sovereign consumers but from the fact of high production and advertising ballyhoo. In the minds of some this may be a muddleheaded and radical notion, but it is at least interesting to see that Alfred Marshall a long time ago said much the same thing. In the words of Marshall:

> Speaking broadly therefore, although it is man's wants in the earliest stages of his development that give rise to his activities, yet afterwards each new step upwards is to be regarded as the development of new activities giving rise to new wants, rather than of new wants giving rise to new activities.[2]

Here again Galbraith cannot be indicted for saying anything which reputable scholars have not said before him.

Some observers mistakenly feel that espousal of such a position shakes the foundation of demand analysis in economics, but this view seems in error. The analysis of consumer demand accepts wants as given, without concern about their derivation. This starting point is not wakened by the suggestion of Galbraith. What is jeopardized, however, is a vulgar statement of consumer sovereignty which indicates that consumers immune from outside influence and pressure dictate the flows of scarce resources. With the impact of advertising and the outpouring of goods, the consumer is a monarch, but one without thorough-going dictatorial powers. The consumer sovereign of contemporary America is a limited monarch. It would be a mistake to neglect the many limits and constraints under which he reigns, while it would be error also to neglect his powers.

In summary, the book of Galbraith clearly is not a learned treatise or research document, its polemical flavor-giving is vigor but also weakness. The author has trod old ground, but at least in the treading he has given economics a provocative and stimulating volume encouraging of debate and discussion.

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2 Alfred Marshall, **Principles of Economics** (London: Macmillan & Co., 1920), 8th edition. p. 89.

THE EARLY RECORD OF A MODERN ADMINISTRATIVE DILEMMA PART I*

by
William G. Scott

Literature in its many forms is a creature of the events which swirl around it. Management literature is not immune to conditioning by the economic and cultural environment of the times. It is no great revelation to say that the writings of Frederick W. Taylor, the Gilbreths, and Henry L. Gantt reflect the social issues which accompanied America's emergence as a great industrial nation.

This article will trace in broad terms from 1900 to 1940 the development of three points of view on one major social issue which is unresolved even now. The issue is the dilemma of individualism (the individualistic ethic) versus collectivism (the social ethic) in business.

No pretense is made that this paper is an exhaustive anthology of management literature. The various works discussed are mirrors which reflect the author's reactions to the dilemma posed by the conflicting value systems of the individualistic ethic and the social ethic.

An astounding amount has been written about management since 1900 and, indeed, the deluge of books and articles on this subject is steadily increasing. Management has never been the exclusive province of so-called technical or "scientific" writers. It has also provided fair game for novelists and critics. As a result, management literature has been channeled into fictional, critical, and technical commentary. This literary classification, which is purely this author's own device, can be discerned with the advantage of nearly sixty years of hindsight.

Since the article is based on technical, fictional, and critical writings, some explanation must be made of how these literary forms are interpreted.[1]

The technical view of management is first. Although the word "technical" may be misleading to some, it is used for lack of anything better. Technical authors write of management as a discipline. Included in this group are writers in the "scientific management" school. Some management writers in the area of human relations are also considered part of the technical class.

In fiction a humanistic view of management is taken. The novelists do not emphasize the technical side of enterprise. They deal instead with the motives which underlie the personal objectives of managers.

The third view of management is formed by critical nonfiction authors. These writers consider the economic, social, and psychological implications of management practice. The scope of work in this area ranges from the role of the corporation in society to the problems faced by people resulting from employment in the managerial corps.

Thus the technical writers consider **management** as a process. The novelists are mostly concerned with **managers** as people. The critical writers talk of management sometimes in the "people" sense and sometimes in the process sense.

The purpose of this article is to give historical perspective to the modern problem of collectivistic versus individualistic behavior in business. The questions raised by this dilemma have captured the attention of a large number of contemporary fiction and nonfiction writers. This paper will endeavor to demonstrate that these management writers of the past were also concerned with the influence of two opposing value systems on managerial thought and practice. The next section presents a background for the remaining sections which will discuss technical, fictional, and critical works.

MANAGERIAL IDEOLOGIES IN A CHANGING CULTURE

A dynamic society requires social and cultural change. With change, different value systems or ideologies appear. Two ideologies which have profound influence on American management thought are the individualistic ethic and the social ethic. Figure I diagrams this influence.

The individualistic ethic is the product of religious belief in Protestantism, the economic ideals of liberalism, and America's geographic frontier. The opportunity for the individual to exploit seemingly boundless natural resources relatively unencumbered by restrictions is the essence of the individualistic ethic. Social thought plus America's bounty caused the individualistic ethic to flower in the Nineteenth Century.

But even in America frontiers and resources had their limitations. Expanding population, urbanization, job specialization, improved communication, and advancing technology diluted the ideal that man

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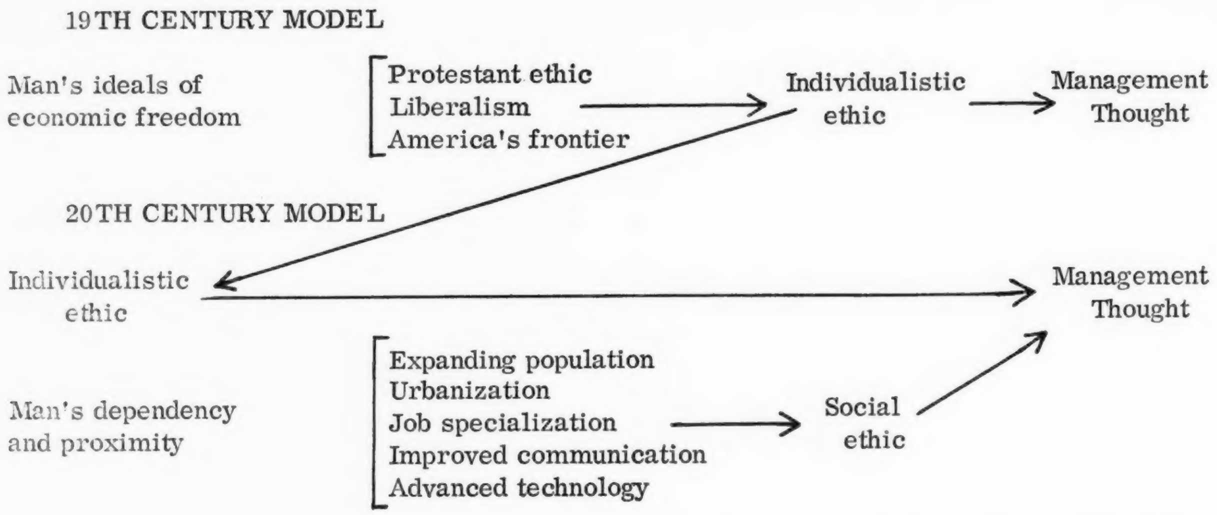
1 The fiction and nonfiction works analyzed for this article have appeared in book form between 1900 and 1940.

FIGURE 1
MANAGERIAL IDEOLOGIES IN A CHANGING CULTURE



in himself is supreme. The growing proximity of people and their dependence on one another generated the necessity of finding ways to achieve human collaboration. The social ethic, characterized by its emphasis on social solidarity, grew out of the need for greater human collaboration in an industrial civilization.

The social ethic has not supplanted the individualistic ethic. Both exert influence on management thought and both reflect the main ethical problem of a maturing industrial democracy—that is, maintaining individualism while at the same time promoting social solidarity. Without doubt, many technical management writers appreciate this problem and attempt to solve the dilemma it creates. Scientific management was the first attack on this dilemma by the technical writers.

THE TECHNICAL WRITERS

Scientific Management and Its Implications

The scientific management pioneers[2] addressed themselves to the dilemma of individualism versus collectivism. They realized a new order was needed which would simultaneously accomplish two ends. The first end was to gain greater co-operation from the people who worked in business. Through scientific management a true mutuality of interests among all associated with industry was envisioned. The second end to be accomplished was to develop a managerial concept that would be compatible with the ideology of the individualistic ethic.

Taylor characterized scientific management by four elements:[3]

a. Science, not rule of thumb
b. Harmony, not discord
c. Co-operation, not individualism
d. Maximum output, in place of output restriction

Scientific management, Taylor emphasized, is not mechanisms. It is a mental process and a philosophy. Within the format of the philosophy the scientific management pioneers tackled a number of issues. Some of them were standardization, work and wages, prosperity and productivity, and employee and national welfare. Unfortunately space prevents a discussion of each of these aspects of scientific management. But taken collectively they added up to a new route to harmonious industrial life. They required a significant shift in managerial thinking. They represented a fundamental change in old management values. The principles contained within the scientific management philosophy are, in reality, a rudimentary statement of the social ethic.

Changes in the 1920's

A coherent body of scientific management fundamentals was stated in the early 1900's. After World War I these contributions were enlarged and

2 Frederick W. Taylor, Henry L. Gantt, Harrington Emerson, Frank and Lillian Gilbreth, and Morris Cooke.

3 Frederick W. Taylor, **Principles of Scientific Management** (New York: Harper and Brothers, 1919), p. 140. Taylor's third characteristic might appear contrary to the individualistic ethic. This point is cleared up by Taylor's comment, ". . . all great things will be done by that type of co-operation in which each man performs the function for which he is best suited, each man preserving his own individuality and is supreme in his particular function, and each man at the same times loses none of his originality and proper personal initiative. . . ." Ibid., pp. 140-141.

to some extent expounded in a more sophisticated way. The 1920's, also, were the heydays for industrial psychologists. It was popular to believe that people naturally do not like to work. The greater prosperity prophesied through scientific management by the pioneers would not automatically yield happy workers. So the industrial psychologists concentrated on the non-material motives for work.

Scientific management was not fundamentally changed during the 'twenties; it was refined through tools contributed by psychologists. Personnel programs developed at this time were directed toward an individual's needs, hence the symbols of the individualistic ethic suffered no violence—well, not too much violence. Management still was seeking co-operation with individualism.

Developments in the 1930's

The Administrator. The most significant development in technical literature during this decade was the effort to professionalize the field of management. The concept of the administrator came along with professionalization. The administrative concept required the manager to possess and apply two sets of skills.

The first set are those **partially "non-human" skills** which enable the manager to practice competently such management functions as planning, organizing, and controlling. The other set are the entirely "human" skills which stem from the conclusions reached by Mayo and his associates through the experiments in human relations conducted at the Hawthorne plant of Western Electric Company. These conclusions focus on the manager as a motivator of people.

By using both these sets of skills—namely, management functions such as planning, organizing, and controlling and the entirely "human" skills—the manager is able to accomplish two ultimate organizational objectives, which actually flow from the nature of the skills themselves. These objectives are obtaining company goals that are based in economic logic and increasing the satisfactions of employees, which are founded largely in nonlogical attitudes and sentiments.

It was observed before that the need for a new (administrative) concept of management arose along with the professionalization of management. The factors causing the professionalization movement will be explained next.

The Professionalization of Management.[4] Berle's and Mean's masterly analysis **The Modern Corporation and Private Property**[5] was something like a manifesto for the professionalization of management. A basic change in the power structure of the business organization was noted in this book. In a corporation, managers are intermediaries. They stand between the corporation and the absentee owners. They act as stewards. The men in management may not own a company but they may control it. Managers, therefore, are placed in the position of experts who, theoretically, run the organization for the advantage of the owners. The possession of a certain expertise associated with managerial functions has assumed the connotation of "profession."

Another event contributing to the professionalization of management was expanding organization size. Level upon level of managers made their appearance and these managers were performing functions which largely involved supervising the work of other managers. In short, an economic bureaucracy was emerging, with large numbers of managers doing fairly specialized tasks. Along with the separation of ownership from control, the growing numbers of management personnel needed an explanation of their tasks and a theoretical foundation.

Older technical management literature did not do this job completely. It did establish the importance of the scientific method in management practice. But a professional doctrine stated on a rather high level of abstraction was needed also. This doctrine had to have generality of application for explaining how an organization works and what management does.

Two books, among others whose revisions are still popular, were aimed at satisfying professional management needs. The first book is Ralph C. Davis' **Industrial Organization and Management.**[6] Davis brings to light fundamental business elements and management functions and then weaves them into a universal business plan. The quality of this work rests in its comprehensiveness. The specifics that Davis discusses find direction in the fundamentals he first lays out.

The second book is **Principles of Organization**[7] by James D. Mooney. Through the statement of several principles, Mooney and Alan C. Reiley (Mooney's colleague on the first edition) set forth postulates explaining organization growth and functional relationships. Within the logical framework of these principles, all the matters of organization such as objectives, policies, authority, leadership, line and staff relationships, and discipline have proper positions and roles.

The work of Davis, Mooney, and Reiley was *process-* not people-oriented. This "deficiency" was compensated by the research that Elton Mayo and his associates conducted at the Hawthorne

(Continued on page 20)

4 The "management profession" is a widely used phrase that has little meaning. Instead of the professionalization of management, the specialization of management more accurately titles the events to be described in this section. Specialization and professionalization are often confused. However, since the latter term is more common it will be used here.

5 Adolf A. Berle, Jr., and Gardiner C. Means, **The Modern Corporation and Private Property** (New York: The Macmillan Company, 1932), esp. Chapter V. For another interesting point of view on corporation development see Thurman W. Arnold, **The Folklore of Capitalism** (New Haven: Yale University Press, 1937), Chapter VIII.

6 Ralph Currier Davis, **Industrial Organization and Management** (New York: Harper and Brothers, 1940). First published under the title **The Principles of Factory Organization and Management.**

7 James D. Mooney, **Principles of Organization** (New York: Harper and Brothers, 1947). First published by Mooney and Alan C. Reiley under the title **Onward Industry.**

THE SOUTHEASTERN CORNER

by
Warren A. Walker

ALABAMA: ITS MANUFACTURING

This is the first of a series of articles dealing with various aspects of the economic base of Alabama.[1] In this, the first, of these articles we shall examine the nature of manufacturing activities, both as to type and on a comparative basis relative to other areas of the country.

Like most of the Southeast, Alabama is in a transitional period—from a basically agricultural economy to a basically industrial economy. As we have seen in an earlier article, Alabama has had pockets of heavy industry for a long time,[2] but a general distribution of industry is relatively recent.

According to the 1950 census, 25.9 per cent of the employed persons in the United States earned their livelihood from manufacturing activities. In Alabama at this same time the percentage was 21.8 per cent and for the South as a whole, 19.8 per cent. Only eighteen of Alabama's 67 counties exceeded the national average figure. On the other hand, three Alabama counties—Chambers, Etowah, and Tallapoosa—all exceeded 40 per cent.

Value Added Per Man Hour

By this index, Alabama showed up slightly better than the South as a whole, with $3.23 added per man hour as compared with $3.20 for the southern average. Both of these figures are substantially below the national figure of $4.26. One reason for this variation is that Alabama, like the typical southeastern state, employs a very high proportion of semiskilled workers.

The above figures are for 1952, and consequently the data are substantially higher at the present time. Available current data are estimates and will not be quoted, but the trend seems to be

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1 For their cooperation in supplying information for this article, the author expresses appreciation to the Bureau of Business Research of the University of Alabama, the Alabama Business Research Council, and various individual faculty members of the University of Alabama.

2 "The Southeastern Corner," Atlanta Economic Review, March 1958.

that Alabama is approaching the national level.

Durable Goods

Alabama's distribution of workers in durable and nondurable production is not that of a typical southern state. The percentage of workers in durable goods in relation to total production workers was 54.2 per cent—the same as the national average figure. The percentage for the South as a whole was 38.2.

Two types of production account for Alabama's relatively high percentage: (1) lumber with 23.2 per cent of the workers; and (2) primary metals with 20.6 per cent. (Lumber is regarded by some economists as merely a specialized type of agricultural production, but the U. S. Bureau of the Census regards it as a durable goods industry.)

Interestingly enough, in types of workers, these two activities do not follow the same pattern. In the case of lumber there is the following distribution of skills: 7.9 per cent craftsmen; 19.3 per cent operatives; 29.4 per cent laborers, and 10.5 per cent service workers. Primary metals represent a very different picture: 39.0 per cent craftsmen, 14.1 per cent operatives, 22.8 per cent laborers, and 19.3 per cent service workers.

An examination of these distributions graphically demonstrates why the *average* wage in timber activites is relatively low and why the *average* wage in the primary metals is relatively high.

Nondurable Goods

In nondurable goods Alabama has a typical pattern, but on a less extreme basis than has the South as a whole.

Of Alabama's workers, 25.9 per cent are in textiles as compared with 30.1 per cent as the average for the southern states. The corresponding percentage for the United States is only 9.9. In textiles there is a relatively high number of operatives such as loom tenders, weavers, etc. In Alabama this type worker accounts for over 36 per cent of the total employment in textiles.

Geographical Distributions

Old line industries in Alabama, such as primary metals, textiles, and lumber, reached an equilibrium of distribution many years ago, and they have shown virtually no shifts in recent years. There is a secondary reason for this, quite aside from their long-established position in the economy, and that is that these industries, more than many others, are located on the basis of the physical aspects of the geography. Such factors are mineral distribution and proximity to the point where the agricultural activities take place.

Newer activities have shown very wide geographical shifts in recent years. In fact, it may quite properly be said that as soon as the figures are available they are out of date.

The Alabama Department of Industrial Relations prepared some figures which examined the period from 1939 to 1952. Emphasis was given to those counties that have traditionally had a relatively high index of manufacturing employment: Jefferson, Mobile, Montgomery, and Etowah.

In 1939 Jefferson County did 93.6 per cent of all manufacturing of electrical machinery within the state. In 1952 this percentage had dropped to 60. In 1939 Jefferson County produced 70.3 per cent of all other types of machinery; the 1952 percentage showed a decline to 48.7. In the case of petroleum and coal products, Jefferson County produced 93.3 per cent in 1939. In 1952 this figure had been reduced to 67.1 per cent.

Montgomery and Etowah counties demonstrate this same type of trend, although to a less dramatic degree. For example, in 1939 Montgomery County had 12.6 per cent of the production of chemicals, and in 1952 this percentage had declined to 10.7.

There was one noteworthy exception to this general trend, and this was caused by a number of internal and external factors that cannot be examined at this time. "Of the four, large-employment counties in Alabama, Mobile is the only one which increased both its proportion of the state's population and its proportion of the state's manufacturing employment from 1939 to 1952."[3]

Conclusions

Basing its findings on the statistics covered in this article and many others, the Alabama Business Research Council reached certain conclusions regarding future plans for Alabama's industrial development.

One of these conclusions was that consumer durable goods and producers goods industries should be given special priority, especially those industries that manufacture finished goods based on the use of metals. Special importance was attached to these areas of activity for several reasons. Not the least of these was the fact that industries of this type are generally high wage, high value-added activities. As we have seen, Alabama has a heavy proportion of low wage, low value-added industries. While Alabama compares favorably with other southern states, it does not compare favorably with the nation as a whole.

A second conclusion was that care should be taken to see that educational facilities are such as to provide workers of the proper level of skills for these newer type industries which the state is making an effort to attract.

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3 **Alabama's Manufacturing Economy**, a joint publication of the Alabama Business Research Council and the University of Alabama.

October, 1959

ATLANTA AREA ECONOMIC INDICATORS

Item	October 1959	Sept. 1959	% Change	Oct. 1958	% Change	% Change Ten Months '59 over Ten Months '58
EMPLOYMENT						
Job Insurance (Employment) Payments	$270,363	$560,821	−51.8	$495,508	−45.4	−45.4
Job Insurance Claimants†	4,998	9,130	−45.3	7,678	−34.9	−38.7*
Total Non-Ag. Employment	361,150	360,250r	+0.2	341,850r	+5.6	+4.0*
Manufacturing Employment	86,750	86,800r	−0.1	79,000r	+9.8	+5.4*
Average Weekly Earnings, Factory Workers	$83.41	$78.39r	+6.4	$75.79r	+10.0	+7.8*
Average Weekly Hours, Factory Workers	40.1	39.0r	+2.8	40.1r	0.0	+1.9*
Index of Help Wanted Ads (Seasonally adjusted, 1947-49 Avg.=100)	171.6	190.7	−10.0	116.2	+47.7	+54.4
CONSTRUCTION						
Number of Building Permits§	589	903	−34.7	900	−34.5	+6.1
Value of Building Permits§	$4,280,356	$10,191,259	−58.0	$9,282,891	−53.8	+23.5
Employees	24,550	25,100r	−2.1	23,500r	+4.5	+14.6*
FINANCIAL▲						
Bank Debits (Millions)	2,080.1	2,015.6	+3.2	1,856.3r	+12.1	+13.9
Bank Deposits (Millions)	1,263.4	1,286.7	−1.8	1,207.9	+4.6	+7.1**
OTHER						
Department Store Sales Index (Adjusted 1947-49=100)	169	169	0.0	154	+9.7	+17.0¶
Retail Food Price Index	115.3	116.5	−1.0	117.6	−1.9	−2.0**
Number of Telephones in Service	354,775	351,385	+0.9	318,829	+11.3	+8.1**

r—Revised *Average month **End of period ¶—Based on retail dollar amounts

§City of Atlanta only. N. A.—Not Available ▲Data from members of the Federal Reserve System only.

†New series. Covers unemployed Federal employees and unemployed veterans in addition to those covered by Georgia law. Claimants include both the unemployed and those with job attachments but working short hours.

Sources: All data on employment, unemployment, hours, and earnings: Employment Security Agency, Georgia Department of Labor; Number Help Wanted Ads: Atlanta Newspapers, Inc.; Building permits data: Office of the Building Inspector, Atlanta, Georgia; Financial data: Board of Governors, Federal Reserve System; Postal data: Atlanta Post Office; Retail Food Price Index: U. S. Department of Labor; Department Store Sales Index: Federal Reserve Bank of Atlanta and Board of Governors, Federal Reserve System; Telephones in Service: Southern Bell Telephone and Telegraph Company.

ATLANTA BUSINESS ACTIVITY

By mid-October the steel strike had not noticeably affected NONAGRICULTURAL EMPLOYMENT in the Atlanta area. The Georgia Department of Labor announced that another all-time high of 361,150 nonfarm workers had been reached. This represents a 4 per cent increase over last year. Since business firms report employment figures to the Georgia Department of Labor around the 15th of the month, the approximately 5,750 auto workers who were laid off October 19th and the 29th, as a result of steel shortages, are not reflected in the October count. Additional layoffs in companies which are suppliers to the auto assembly and transportation industry also will not be apparent until the November figures are tabulated.

The Buick-Oldsmobile-Pontiac plant in Doraville resumed production December 9th, at which time all 2,500 idle workers were recalled. Another 3,250 Chevrolet and Fisher Body plant employees returned to work December 14th.

Normal Christmas gains in retail trade and post office employment should offset to some extent the Air Force cancellation of a multi-million dollar B-70 triple-sonic bomber subcontract on which Lockheed Aircraft has been working since last spring. According to W. A. Pulver, vice president in charge of Lockheed's Georgia Division, about 1,000 skilled employees will be "affected" by this. Seven hundred were given their pink slips December 4th, and more will probably be given notice later in the month.

JOB INSURANCE PAYMENTS and JOB INSURANCE CLAIMS were substantially lower in October than in the preceding month or October of last year. JOB INSURANCE PAYMENTS of $270,363 for October represent the lowest level attained in almost three years. In addition, the entire year's payments are running 45.4 per cent lower than those of last year.

O. H. Stephenson of the Atlanta Employment and Claims Office explains the sharp drop from September to October by the reduction of a large number of "partial claims" which originated in the auto industry during September model changeovers.

A partial claim (or "low-earnings report") is normally filed by an employer on behalf of an employee whose working hours have been so severely reduced that he earns less by working than he would by drawing full unemployment benefits. The state, upon receipt of valid claims of this type, will pay the employee the difference between what he earns and what he would have received in benefits if totally unemployed.

However, when a worker is separated from his job completely, this recourse is not available to him. He files a claim at one of a number of offices in the Standard Metropolitan Area, depending on where he lives in the five counties of the area; or he may file outside the area altogether. This would appear to be the case during model changeover periods. But a plant that is shutting down only temporarily and can specify a reopening date may be allowed to file a partial claim or low earnings report on its employees, even though the employees are technically separated. This keeps the firm's work force readily accessible when production begins again. And it also accounts for the wide variation in JOB INSURANCE PAYMENTS (33.1 per cent increase from August to September; 51.8 per cent decrease from September to October). JOB INSURANCE PAYMENTS figures come from the Atlanta Local Office, not from the Standard Metropolitan Area which includes much more administrative area. When the auto plants shut down temporarily, these partial claims arrive in a lump at the Atlanta Local Office instead of being spread over the entire five counties, or in some cases being outside the area entirely.

For the third straight month, BANK DEBITS reached an all-time high in October. The $2,089,100,000 figure is 3.2 per cent above September. The ten months average for 1959 is an impressive 13.9 per cent over the same period for 1958. BANK DEPOSITS showed a mild decline of 1.8 per cent, but are still running about 7 per cent above last year.

In short, during October the Atlanta area experienced a record peak of prosperity—at least until the auto layoffs began. Employment was at an all-time high. Spending, as indicated by BANK DEBITS, was at an all-time high, and unemployment payments were at a three year low. The month of November, of course, will not match this record due to the delayed effect of the steel strike.

J.R.O.

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(**Administrative Dilemma** continued from pg. 15)

plant.[8] In addition to being a structure of formal relationship, Mayo observed, an organization is also a social system. As such, it has cliques, grapevines, informal status systems, and a mixture of logical and purely human, nonlogical forms of behavior. The Hawthorne studies stressed that the administrator must have human skills and a human relations point of view.

A positive statement and definition of the administrator was formulated in the technical literature of the 'thirties. It is evident from the work of Mayo and his colleagues that the social ethic grew more sophisticated in content and in its application to management. The professional manager's literature took two paths to arrive at the common goal of the administrative concept.[9] The use of the technical and the human skills in administration provided a sound professional objective toward which management could strive.

In the four decades following the turn of this century, stress was placed increasingly by the technical authors of both the "human" and "non-human" schools on the necessity of social solidarity in industry. Their efforts furthered the development of the social ethic. The scientific management pioneers began with a rather crude notion of achieving social solidarity through the automaticity of "mutuality of interests." Then, management was "humanized" in the 1920's by the industrial psychologists. Finally, in the 1930's, an interdisciplinary approach to human relations gained strength and evolved as an indispensable administrative skill.

It cannot be emphasized too strongly that the growth of the social ethic, especially during the 1930's almost eclipsed the individualistic ethic in professional literature. The concept of the administrator was largely a product of the social ethic.

Efforts were made, of course, to reconcile the social value system with the individualistic ethic. There is little doubt that both these ethical systems influenced management thought, but the social ethic seemed to predominate in the literature if not in actual business practice. This observation underscores the idea that an adequate reconciliation of these contrary ideologies was not accomplished by technical writers during the period covered by this paper.

(To be continued in a subsequent issue of the **Atlanta Economic Review**)

8 A complete report of the Hawthorne studies may be found in F. J. Roethlisberger and William J. Dickson, **Management and the Worker** (Cambridge: Harvard University Press, 1956, Eleventh Printing).

9 Interestingly enough, there was a rather clear division between the authors who wrote about "nonhuman" management functions and the human relationists who wrote about "people." Chester I. Barnard, in his **The Functions of the Executive**, first printed in 1938 by the Harvard University Press, attempted to weld these "schools" together, using the ideas of the "efficient" and the "effective" organization. See Chapter 7.